

Message Text

CONFIDENTIAL

PAGE 01 ROME 10011 01 OF 02 200948Z

11

ACTION EB-05

INFO OCT-01 SS-14 ISO-00 EUR-10 NSC-07 NSCE-00 AID-10 L-02

RSC-01 DRC-01 NEA-06 SSO-00 /057 W

----- 062398

O 200850Z JUL 74 ZFF-6

FM AMEMBASSY ROME

TO SECSTATE WASHDC IMMEDIATE 6039

INFO AMCONSUL HAMBURG IMMEDIATE

AMEMBASSY JIDDA IMMEDIATE

AMEMBASSY KUWAIT IMMEDIATE

DISTENGR RIYADH SAUDI ARABIA

TREASURY DEPT WASHDC IMMEDIATE

C O N F I D E N T I A L SECTION 1 OF 2 ROME 10011

LIMDIS

E.O. 11652: GDS

TAGS: OVIP (SECRETARY OF TREASURY SIMON), EFIN, IT

SUBJECT: POSSIBLE TALKINGPOINTS FOR MEETING WITH MINISTER COLOMBO
AND OTHER ITALIAN OFFICIALS

REF: ROME 9879 OF JULY 18

1. FOLLOWING IS POSSIBLE BRIEFING PAPER EMBASSY HAS
PREPARED FOR SECRETARY SIMON'S MEETING WITH MINISTER
COLOMBO.

2. TALKING POINTS. YOU MAY WISH TO:

--TEL MINISTER COLOMBO THAT THE USG IS SYMPATHETIC
TO THE DIFFICULT ITALIAN FINANCIAL SITUATION AND INTERESTED
IN THE GO'S EFFORTS TO IMPLEMENT AN EFFECTIVE ECONOMIC
STABILIZATION PROGRAM;

--ASK THE MINISTER FOR HIS EVALUATION OF THE
PROSPECTS FOR PARLIAMENTARY APPROVAL OF THE DECREE
LAWS IMPLEMENTING RUMOR GOVERNMENT'S TAX INCREASE
PROGRAM;

--URGE THE MINISTER TO IMPRESS UPON HIS COLLEAGUES
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 ROME 10011 01 OF 02 200948Z

IN THE CENTER-LEFT COALITION THE UTMOST IMPORTANCE OF

AN EFFECTIVE PROGRAM FOR ITALY BOTH DOMESTICALLY AND INTERNATIONALLY. (YOU MAY HAVE AN OPPORTUNITY TO MAKE THIS POINT DIRECTLY WITH SOCIALIST MINISTER OF BUDGET GIOLITTI);

--BRIEF HIM ON YOUR TALKS WITH CHANCELLOR SCHMIDT AS CONCERNS EC INTENTIONS REGARDING POSSIBLE AID TO ITALY.

3. BACKGROUND INFORMATION FOLLOWS.

4. SUMMARY. RUMOR GOVERNMENT'S ECONOMIC STABILIZATION PROGRAM, INCLUDING THE DECREE LAWS IMPLEMENTING THE FISCAL PORTION OF THE PROGRAM, WERE APPROVED BY THE COUNCIL OF MINISTERS ON JULY 6. THESE LAWS REQUIRE PARLIAMENTARY CONFIRMATION WITHIN 60 DAYS AND WERE SUBMITTED FOR PARLIAMENTARY CONSIDERATION ON JULY 16. THE PCI (ITALIAN COMMUNIST PARTY) AND THE LABOR UNIONS HAVE MADE CLEAR THEIR INTENTION TO SECURE SUBSTANTIAL MODIFICATION OF DECREE LAWS, AND COMMUNISTS HAVE ALREADY PROPOSED AMENDMENTS. ON JULY 18 INTERMINISTERIAL CREDIT COMMITTEE APPROVED INITIAL PART OF GOVERNMENT CREDIT PROGRAM, WHICH WOULD MAKE MORE CREDIT AVAILABLE TO SMALL AND MEDIUM INDUSTRIES, FOR EXPORT FINANCING AND INVESTMENT IN THE SOUTH.

4. FISCAL PACKAGE. ON JULY 6 COUNCIL OF MINISTERS APPROVED DECREE LAWS WHICH PUT INTO EFFECT FISCAL MEASURES DESIGNED TO REDUCE INTERNAL DEMAND AND, CONSEQUENTLY, BALANCE OF PAYMENTS DEFICIT THROUGH NEW TAX LEVIES AND PUBLIC SERVICE RATE INCREASES TOTALLING 3,000 BILLION LIRE. FIRST DECREE LAW IS DESIGNED PRIMARILY TO REDUCE FISCAL EVASION, AND IMPROVE TAX COLLECTION APPARATUS. SECOND DECREE PROVIDES FOR VARIOUS INCREASES IN DIRECT TAXES INCLUDING AN INCREASE FROM 25 PERCENT TO 30 PERCENT IN CORPORATE INCOME TAX RATE INCREASE FROM 10 PERCENT TO 20 PERCENT IN ADVANCE PAYMENTS OF INCOME TAX BY SELF-EMPLOYED WORKERS, RAISING OF MINIMUM INCOME LEVEL NOT SUBJECT TO PERSONAL INCOME TAX TO HELP LOW INCOME GROUPS, INCREASE IN TAXABLE BASE OF REAL ESTATE INCOME FOR ASSESSMENT OF PROPERTY TAXES, AND FOR 1974 ONLY, A TAX ON BOTH COMMERCIAL AND RESIDENTIAL BUILDINGS. CONFIDENTIAL

CONFIDENTIAL

PAGE 03 ROME 10011 01 OF 02 200948Z

THIRD DECREE LAW PROVIDES FOR INCREASES IN VALUE-ADDED TAX (IVA) FROM 18 TO 30 PERCENT FOR LUXURY ITEMS, 6 TO 18 PERCENT FOR MEAT, AND INCREASES IN VARIOUS OTHER ITEMS. THERE WOULD BE INCREASE IN REGISTRATION TAX ON SALE OF REAL ESTATE FROM 5 PERCENT TO 8 PERCENT OF PROPERTY VALUE AND INCREASE IN STAMP TAX ON DOCUMENTS. FOURTH DECREE PROVIDES FOR 40 LIRE PER LITER INCREASE IN GASOLINE AND ONE-TIME TAX ON AUTOMOBILES RANGING

FROM 6,000 TO 2000,000 LIRE. ALSO, ON JULY 6, INTER-MINISTERIAL PRICE COMMITTEE APPROVED NEW SCHEDULE OF UTILITY RATES WHICH IS DESIGNED TO EXACT LARGER CHARGERS ON HEAVY USERS OF ELECTRICITY. PROCEEDS AHVE BEEN EAR-MARKED FOR USE IN MEETING HIGHER COSTS OF FUEL OIL. IN ADDITION, IT IS ANTICIPATED THAT REGIONAL AND LOCAL GOVERNMENTS WILL BE AUTHORIZED AND ENCOURAGED TO INCREASE UTILITY RATES ON WATER AND GAS AND ON URBAN TRANSPORT. THESE DECREE LAWS REQUIRE PARLIAMENTARY APPROVAL WITHIN 60 DAYS AND WERE SUBMITTED TO THE CHAMBER OF DEPUTIES ON JULY 16 AND THE SENATE ON JULY 17.

VOLPE

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 ROME 10011 02 OF 02 201010Z

12

ACTION EB-05

INFO OCT-01 EUR-10 NEA-06 ISO-00 SS-20 NSC-07 NSCE-00

AID-10 L-02 RSC-01 DRC-01 SSO-00 /063 W

----- 062630

O 200850Z JUL 74 ZFF-6
FM AMEMBASSY ROME
TO SECSTATE WASHDC IMMEDIATE 6040
INFO AMCONSUL HAMBURG IMMEDIATE
AMEMBASSY JIDDA IMMEDIATE
AMEMBASSY KUWAIT IMMEDIATE
DISTENGR RIYADH SAUDI ARABIA IMMEDIATE
TREASURY DEPT WASHDC IMMEDIATE

C O N F I D E N T I A L SECTION 2 OF 2 ROME 10011

LIMDIS

6. IT IS ALREADY EVIDENT THAT THE GOVERNMENT WILL NOT BE ABLE TO SECURE APPROVAL OF THE DECREES WITHOUT ACCEPTING SOME AMENDMENTS. THE OPPOSITION PARTIES, SPECIFICALLY THE COMMUNISTS, HAVE ALREADY PROPOSED AMENDMENTS. WE UNDERSTAND THAT THE PARTIES OF THE MAJORITY ARE SHOWING AN INCLINATION TO COMPROMISE BUT HAVE AGREED AMONG THEMSELVES THAT ONLY AS A RESULT OF A UNANIMOUS DECISION OF ALL FOUR COALITON PARTIES WILL ANY AMENDMENTS BE ACCEPTED. IT IS EXTREMELY DIFFICULT TO PREDICT

WHETHER THE GOVERNMENT PROGRAM WILL EMERGE FROM PARLIAMENT AS AN EFFECTIVE TAX PACKAGE OR WHETHER THE COLOBO/CARLI CHARACTER OF THE PROGRAM WILL BE SERIOUSLY ERODED.

7. CREDIT PROGRAM. ON JULY 18 THE INTERMINISTERIAL COMMITTEE FOR CREDIT AND SAVINGS APPROVED THE CREDIT PROGRAM WHICH HAD PREVIOUSLY BEEN AGREED ON BY THE COUNCIL OF MINISTERS. THE PURPOSE OF THE PROGRAM IS TO MAKE ADDITIONAL CREDIT AVAILABLE TO MEDIUM-TERM SPECIAL CREDIT INSTITUTES FOR PURPOSES OF EXPORT FINANCING, LOANS TO SMALL AND MEDIUM INDUSTRIES AND INVESTMENT IN THE SOUTH. COMMERCIAL BANKS WILL BE REQUIRED TO INCREASE THEIR OBLIGATORY PURCHASES OF BONDS ISSUED BY THE SPECIAL CREDIT INSTITUTES BY 3 PERCENT, SO THAT
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 ROME 10011 02 OF 02 201010Z

THEIR TOTAL BOND HOLDINGS WILL EXCEED THEIR 1973 HOLDINGS BY 12 PERCENT OF DEMAND AND SAVINGS DEPOSITS AS OF DECEMBER 31, 1973. IT IS EXPECTED THAT THIS MEASURE WILL DIVERT SOME 1,800 TO 2,000 BILLION LIRE OF ADDITIONAL CREDIT TO THESE AREAS. ALTHOUGH MINISTER COLOMBO HAS PRESENTED THE PROGRAM AS AN EASING OF SPECIAL CREDIT, IT IS ACTUALLY A REALLOCATION WITHIN THE EXISTING CREDIT CEILING.

8. US SUPPORT FOR ITALY. WE DO NOT EXPECT ANY SPECIFIC REQUEST FOR US FINANCIAL ASSISTANCE FROM GOI. HOWEVER, GENERAL US POSTURE OF SYMPATHY FOR ITALY'S DIFFICULT BALANCE OF PAYMENTS AND INFLATION PROBLEMS, OWING IN PART TO PETROLEUM PRICE INCREASES, IS WARRANTED AND HAS ALREADY BEEN EXPRESSED BY SECRETARY KISSINGER. NEED FOR STRONG ECONOMIC STABILIZATION PROGRAM IS OBVIOUS BUT CENTER-LEFT GOVERNMENT FACES DIFFICULT POLITICAL PROBLEM IN SELLING ADEQUATE PROGRAM IN PARLIAMENT AND VIS-A-VIS UNIONS. SECRETARY SIMON'S VISIT IS NICELY TIMED FOR GIVING EXPRESSION OF US SUPPORT AT SAME TIME THAT WE CAN HELP TO STRENGTHEN WILL OF GOI AUTHORITIES TO PERSEVERE IN OBTAINING PARLIAMENTARY APPROVAL AND SUBSEQUENT IMPLEMENTATION OF GOOD STABILIZATION PROGRAM. TO EXTENT OPPORTUNITY PRESENTS ITSELF, CLEAR US STATEMENT IN THIS REGARD TO SOCIALIST BUDGET MINISTER GIOLITTI WOULD BE PARTICULARLY APPROPRIATE.
VOLPE

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 JUL 1974
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GarlanWA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ROME10011
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740196-0211
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740732/aaaabarb.tel
Line Count: 216
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: ROME 9879 OF JULY 18
Review Action: RELEASED, APPROVED
Review Authority: GarlanWA
Review Comment: n/a
Review Content Flags:
Review Date: 08 MAY 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 MAY 2002 by boyleja>; APPROVED <31 MAR 2003 by GarlanWA>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: POSSIBLE TALKINGPOINTS FOR MEETING WITH MINISTER COLOMBO AND OTHER ITALIAN OFFICIALS
TAGS: OVIP, EFIN, IT, (SIMON, WILLIAM E), (COLUMBO)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005